USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - Public distribution

Date: 10/2/2007

GAIN Report Number: BR7630

Brazil

Agricultural Situation

Soybean Planting Report

2007

Approved by:
Morgan Perkins, ATO Director
ATO Sao Paulo

Prepared by:
Elizabeth Mello, Agricultural Attaché
U.S. Embassy

Report Highlights:

The situation for Brazilian soybean farmers has turned around since last season. High international prices and an improving credit situation have compelled farmers to plant an estimated 22.3 million hectares of soy, equal to a dramatic recuperation in area lost in the 2006/07 crop year due to financial difficulties. Post forecasts production at 62.1 million metric tons (MMT), 3 MMT over last year's crop. Planting in Brazil has just begun in Mato Grosso, and farmers have purchased large amounts of inputs in advance this year, positioning themselves to produce 2.8 ton per hectare yields, in line with last year's crop and the 5-year average.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Accra [GH1]
[BR]

PS&D

PSD Table Country: Brazil Oilseed, Soybean (Local) (1000 HA)(1000 MT)							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [New]	Post Estimate [New]	
Market Year Begin		02/2006		02/2007	9/2008	10/2008	MM/YYYY
Area Planted	22300	22300	21100	21100	22000	22300	(1000 HA)
Area Harvested	22229	22229	20700	20700	21500	22300	(1000 HA)
Beginning Stocks	1638	1638	2252	2252	2278	2578	(1000 MT)
Production	57000	56200	59000	59000	61000	62100	(1000 MT)
MY Imports	40	40	100	100	50	50	(1000 MT)
MY Imp. From U.S.	0	0	0	0	0	0	(1000 MT)
MY Imp. from the EC	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	58678	57878	61352	61352	63628	64728	(1000 MT)
MY Exports	24770	24770	26500	26500	29200	29200	(1000 MT)
MY Exp. to the EC	11000	11000	11000	11000	11000	11000	(1000 MT)
Crush Dom. Consumption	28756	28756	29300	29300	29300	31000	(1000 MT)
Food Use Dom. Consumption.	0	5	0	0	0	0	(1000 MT)
Feed,Seed,Waste Dm.Cn.	2900	2500	2974	2974	3000	3000	(1000 MT)
TOTAL Dom. Consumption	31656	31261	32274	32274	32300	34000	(1000 MT)
Ending Stocks	2252	1847	2578	2578	2128	1528	(1000 MT)
TOTAL DISTRIBUTION	58678	57878	61352	61352	63628	64728	(1000 MT)
Calendar Year Imports	0	0	0	0	0	0	(1000 MT)
Calendar Yr Imp. U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Year Exports	0	0	0	0	0	0	(1000 MT)
Calendar Yr Exp to U.S.	0	0	0	0	0	0	(1000 MT)

Production

Post increased its estimate to 62.1 million metric tons (MMT) for the 2007/08 crop year, up 2% from the 61 MMT estimate made in the May Soybean Annual Report (see BR7618). This is a projected increase of 3 MMT over last year's soy crop. The expected increase in production is due to several factors. Soybean prices are at their highest since May 2004. A sign of farmers' decisiveness in planting is made clear through their high demand for seed, agricultural machinery, agrochemicals, and fertilizers. Farmers purchased fertilizer far in advance this year, and sales are twice what they were last year at this time. Farmers will undoubtedly pursue more aggressive production strategies, also due to the fact that farm debt was rolled over yet another year, meaning farmers have more capital for inputs. In addition, production continues to benefit from the changes to Brazilian biotechnology policy that took place in 2006.

The biggest challenge faced by Brazilian soybean farmers is the strong Brazilian currency. The Real has continued to rise versus the dollar and is now at its highest point since August of 2000, a factor that cheapens the value farmers received for their exports. The cost of transportation for soybeans also continues to rise, especially for those farmers in the middle of the country where distances are the greatest to port. Freight rates are at all-time highs and little progress has been made in the past year to advance infrastructure. Production costs didn't increase as much as expected, but input prices, due to high petroleum prices and strong demand, are still on the increase.

Oct/07	**Soybean Area, Yield and Production 07/08**		Post forecast
	(1000 ha; Tons/ha, Thousand tons)		
Region	Area	Yield	Production
Center West	**10210**	**3,047**	**31110**
MS	1850	**2,662**	4925
MT	5800	**3,190**	18500
GO	2500	**3,000**	7500
DF	60	**3,083**	185
South	**8480**	**2,481**	**21035**
PR	4050	**2,938**	11900
SC	330	**2,682**	885
RS	4100	**2,012**	8250
Southeast	**1505**	**2,724**	**4100**
MG	975	**2,718**	2650
SP	530	**2,736**	1450
Northeast	**1575**	**2,787**	**4390**
MA	420	**2,857**	1200
PI	255	**2,706**	690
BA	900	**2,778**	2500
North	**523**	**2,790**	**1459**
RO	100	**3,050**	305
AM	3	**3,000**	9
RR	25	**3,000**	75
PA	85	**3,059**	260
TO	310	**2,613**	810
Totals	**22293**	**2,785**	**62094**

La Niña is another potential negative which may cause irregular and poorly distributed precipitation this year in Brazil. La Niña is known to cause drought in Southern Brazil and excess humidity in the Center-west, the two areas where soybeans are concentrated. So far this year, the opposite has occurred, since the beginning of the rainy season has been delayed in the Center-west but the South has experienced rain in above average amounts. Some areas of the Center-west have gone four months or more without significant rain, making planting impossible due to low hydrological reserves and poor soil humidity. International soybean prices have received a boost from these weather problems.

Planting Progress

Lack of rain in Mato Grosso has caused a general delay in soybean planting of nearly two weeks. Most areas of Mato Grosso has received less than 30 mm of precipitation. This means planting is behind and the crop will be more at risk to suffer from rust damage. In addition, the harvest may be complicated as producers in Northern Mato Grosso historically have struggled getting their soy harvested in March due to excessive humidity and fields being too muddy for harvesters. Because a delay in planting can lead to yield losses and complications at harvest, some larger soybean operations with a lot of acreage have begun to plant with the risk of re-planting due to market and yield risks that they will face otherwise. The first 500 hectares in Brazil were planted despite low moisture levels in Sapezal on the André Maggi Group's farm located in Tucunaré (480 km NE of Cuiabá). At the release of this report, less than 2% of the crop has been planted, about 150,000 hectares, all in Mato Grosso.

Prolonging the harvest will also bring problems for safrinha corn or cotton that many Brazilian farmers plant directly behind their soy harvest. In Mato Grosso, corn needs to be planted by the end of February or risks lacking rain for its development stage. At this point, safrinha corn planted after soy in Mato Grosso will be at risk of getting too little rain and if planting is delayed in Paraná (second state to plant soy after Mato Grosso) corn risks suffering frost damage. This year, with high corn prices, Soybean farmers are looking in particular to plant early with early and short-cycle varieties of soy, not only to avoid rust but in order to guarantee a timely and healthy corn crop. Delayed soybean planting will negatively impact in winter (safrinha) corn area, but it will not alter soybean area.

Area

Post's new area number is 22.3 million hectares, a complete recuperation in the area lost last season as a result of financial difficulties faced by farmers. Not only are big farmers looking to plant all their available area this year, but many small farmers that did not plant last year due to financial difficulties are now back in operation due to increased credit availability and the attractive economic conditions for growing soybeans.

The biggest change in Post's area estimate involves the area planted in Mato Grosso state. Post increased its forecast 1500 hectares due to the fact that farmers have bought inputs and sought credit in larger quantities than last year, undoubtedly impacted by high soybean prices and the announcement in September of the government rollover of farm debts for another year. Multinational traders have also shown a greater disposition to extend credit in Mato Grosso, where farmers depend most on this type of credit. Inputs needed to plant are provided up-front by the companies.

Small area adjustments were also made in the South. Although this region does not have area for expansion, since summer corn area diminished due to insufficient rain, these areas that would have been corn will go to soy.

The only state not expected to expand its area is Santa Catarina, due to increased corn planting. The region expected to have the largest percentage increase is the North, where the soy area is relatively small but expanding rapidly (the state of Rondonia, which borders Bolivia, is projected to increase its area by one-third).

Exports

Brazilian soybean exports will be higher this year, and are expected to reach 26,500 MT, 10% over last year's soybean exports, in spite of lower than average levels in January and February. Looking at the overall soy complex, exports of meal and oil have increased this year by 9% and 1% respectively (Secex). China purchased 45% of Brazil's soy through the month of August, followed by the Netherlands and Spain. Brazil exported 8700 MT of soybean meal, and its main markets for meal are France (up 25% year-to-date), the Netherlands, and Portugal. Total soybean oil volumes in 2007 are 1549 MT, sold to the Netherlands, Iran, and China, among others.

Marketing

Due to the high international soybean prices, 30% of the 2007/08 crop is already sold, way above the 9% that was sold as this time last year. The highest percentage of the crop is already sold in the Center-west (Mato Grosso's crop is 50% sold), where multinationals finance the vast majority of production and where farmers are most in need of operating capital.

The crop is also sold further in advance this year as a result of the push for multinationals to fulfill their export contracts, which were put in jeopardy due to the short crop in the US in combination with the expectation of lower yields for the current US harvest that is in progress. In addition, both domestic (Brazilian) and international demand for soybeans continues firm due to strong growth in the Brazilian meat sector (including less availability of wheat and corn for feed), strong Brazilian and global economies, and increasing use of soybeans for Biodiesel production.

Last year's (2006/07) crop is now 90% sold, about 5% higher than the average for this date. Producers in the South are the only ones with soybeans still to sell, and the practice of holding on to beans is more common in the southern region due to the high concentration of cooperatives that sell the product at the farmers' discretion.

Costs of Production steady

The current year brought an approximate 20% increase in the cost of fertilizers, while other inputs such as seeds and agrochemicals diminished, and are down 5% and 15%, respectively. Fixed costs such as labor and interest rates have increased slightly. Producing average yields, Brazilian soybean farmers can expect profit margins of 12% (Rondonópolis, Mato Grosso) to 16% (Cascavel, Paraná), similar to those achieved from last year's harvest. This is the equivalent of a $13-$16 profit per 60-kilo bag of soybeans.

Soybean Moratorium: One Year Later

Non-Governmental Organizations (NGOs) involved in the pact for sustainable soy in the Amazon – the Soy Moratorium – such as Greenpeace and The Nature Conservancy, met in Sao Paulo with representatives of the soybean industry and large European importers to evaluate the results of the first year of the moratorium (see BR7012 for more information). Among other outcomes, the group agreed that the pact has been successful in that it built partnerships between the environmental sector and business enterprises. On the other hand, multinational trading companies signed the agreement without seeking buy-in from soybean producers. The fact that farmers were not asked to take part detracts from the agreement's credibility. In addition, tracking tools are not in place to evaluate whether harvested soy has induced deforestation.

Most multinational soybean trading companies (Cargill, ADM, Bunge) agree that mapping soybean production in the Amazon biome is one possible way to compel soybean producers to obey the Brazilian Forest Code. The forest code specifies that eighty percent of forested property in the Amazon biome must be set aside as a legal reserve. In addition, riparian areas and other areas of ecological importance must be left intact as areas of permanent protection. In other words, farmers who don't set aside a legal reserve and leave riparian areas near rivers and springs intact will not be able to sell their crop to the multinational trading companies, which market 95% of the harvest in the Center-West.

However, many farmers see the moratorium as an affront to Brazilian legislation because it goes beyond the forest code, stating multinationals will not purchase any soy whatsoever planted in the Amazon biome. Brazilian law allows 20% of farmers' land in the Amazon biome be planted, while the rest be left as forest reserve. Farmers challenge that the moratorium conflicts with this legislation. In their opinion, the current legislation is more effective than the moratorium and easier to enforce. In addition, soybean producers have pointed out that after one year, no report has been released informing how the moratorium has been enforced, whether multinationals refused to buy soy produced in the Amazon Biome, and in what amount.

In early October, the Governor of Mato Grosso Blairo Maggi proposed a 5-year moratorium for all crops (not just soybeans) planted in the state's Amazon biome (the current moratorium will expire in July 2008). Mato Grosso's territory is 50% Amazon biome, mostly located in the northern part of the state. However, according to Abiove (Brazilian Association of Vegetable Oils) only 1.1% percent of the soy crop is produced in this biome. The proposed moratorium, like the current one, would supersede the forest code, which allows 20% of land to be under cultivation.

Progress in Developing Rust-Resistant Soy

A rust-resistant variety of soybeans has now been developed by Embrapa, the Brazilian Government's agricultural research arm. The new cultivar, developed for use in the Center-west, is currently in the registration phase. Embrapa plans to multiply the seed, which predominates from the BR01-18437 line, during the 2008/09 crop year and release the seed for use in the 2010/11 crop year.

The new rust-resistant variety was tested over five seasons and each time proved a high level of resistance to the disease (Phakopsora pachyrhizi). Rust that is not controlled can cause losses of up to 70% of the soybean crop. Soybean producers will still be a need for fungicides, but instead of three (the average in Brazil) or more applications that are currently needed in many areas, the rust-resistance variety will only need one. The average cost for spraying against rust in Brazil is US$50 per acre (3 applications). In Mato Grosso, US$280 million is the average yearly cost farmers spend on rust control. The variety will be particularly useful to farmers with large areas, giving them a longer window in which they can spray. Under the current system, spraying at the right time is a challenge for farmers, and with rust-resistance, farmers will have a greater margin for spraying.